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F I S C A L I M P A C T R E P O R T



SPONSOR: Rep. Lundstrom DATE TYPED: 02/12/02 HB HB 54/a HAFC

SHORT TITLE: Individual Development Accounting Act SB _____

ANALYST: Sandoval

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY02	FY03	FY02	FY03		
	NFI				

(Parenthesis () Indicate Revenue Decreases)

Duplicates SB 322 and SB347. HB 54/a HAFC also duplicates SB 322/aSCORC

SOURCES OF INFORMATION

LFC files

Responses Received

- Children Youth and Families Department (CYFD)
- Division of Vocational Rehabilitation (DVR)
- Financial Industries Division of the Regulation and Licensing Department

No Response

Department of Finance and Administration (DFA)

SUMMARY

Synopsis of HAFC Amendment

House Appropriations and Finance Committee amendment strikes HBIC amendment 1 and amends the original version of this bill to broaden the term “earned income” to “a resource”, as used in defining money withdrawn from an IDA and how it is counted for purposes of the New Mexico Works Act, Medicaid and the food stamp program. This amended version has no general fund allocation.

Synopsis of Original Bill

House Bill 54 establishes the Individual Development Account Act, to be administered by the Local Government Division (the division) of the Department of Finance and Administration. The purpose of this act is to develop individual development account (IDA) programs that will establish and administer IDAs and reserve accounts for eligible individuals and to provide financial training. IDA funds and matching reserve funds are to be used by account owners for allowable uses or emergencies as defined by rules to be adopted by the division director. Allowable uses include expenses to attend post-secondary educational or vocational institutions, costs to acquire or construct a first time primary residence, major home improvements or repairs, starting or expanding a business and acquiring a vehicle necessary for the account owner to obtain or maintain employment.

Indian tribes and nonprofit organizations may apply to administer IDA programs. The division is authorized to terminate non-compliant IDA programs if such programs are not appropriately administered. Money in an IDA will not be counted against the account owner's eligibility under the New Mexico Works Act, Medicaid, food stamp programs and Temporary Assistance to Needy Families (TANF).

House Bill 54 appropriates \$250.0 from the general fund to the Local Government Division of the Department of Finance and Administration for the purpose of administering and implementation of the Individual Development Account Act. No more than five percent (\$12.5) of this allocation is to be used for administrative costs.

Significant Issues

- IDAs are for eligible individuals who meet specific earned income criteria and are to be used for specific purposes to be identified by state statute and rules adopted by the director.
- On an annual basis, the division is to solicit a request for proposals from nonprofit organizations or tribes interested in establishing an IDA program.
- This bill also creates an advisory committee that is to provide oversight, suggest possible changes and is to be composed of the division director and eight members that are appointed by the division director to represent the state geographically.
- A limited version of this proposed program currently exists under the New Mexico Works Act; Section 27-2B-10 NMSA 1978.
- The division shall use no more than 5 percent of the money appropriated to fund and administer this Act.

FISCAL IMPLICATIONS

The appropriation of \$250.0 contained in this bill is a non-recurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of FY03 shall revert to the general fund.

Continuing Appropriations

There is no language contained in this bill for the continued funding of this program. This program will require continued funding to insure its success and continued operation.

ADMINISTRATIVE IMPLICATIONS

There has been no response from the Department of Finance and Administration.

TECHNICAL ISSUES

- The accumulation of interest in the owner's account and for the designated matching funds in the reserve fund is not fully addressed in this bill.
- Account owners are to complete a financial education program prior to withdrawing money from their accounts. This bill does not mention what happens to the money deposited by the owners if the owners do not complete the mentioned financial education program.
- This bill appears to expand this program and the duties of the department while eliminating the current version of this program, as it exists in the New Mexico Works Act.
- The description "a proportionate" in section 8, subparagraph B, line 12 of this bill can be rewritten to say "the designated" to make the meaning of this sentence more clear to the reader and more consistent with other language contained in this bill.

OTHER SUBSTANTIVE ISSUES

- The owner of an IDA has ninety days to re-deposit unauthorized withdrawals so that proportionate matching funds are not forfeited.
- The director is to make an annual report each November to the Governor and to an appropriate interim committee of the New Mexico Legislature.

POSSIBLE QUESTIONS

1. Is an account owner not allowed to withdraw their own contribution to the IDA if they do not complete a financial education program?
2. Is the question of accumulated interest in IDAs and reserve funds to be addressed in the rules to be adopted by the director?
3. Is the mention of forfeiture of matching funds, unless an amount equal to the unallowed withdrawn amount is re-deposited within 90 days, mentioned because of a possible loss of accumulated interest in designated matching funds? If not, what is the penalty, deterrent or reason for this part of the bill (Section 8, subsection B.)?
4. What funding sources are to be used for the continued operation of this program?
5. How is this program as it currently exists in the New Mexico Works Act funded?
6. Will this program continue to be funded as it is now?
7. Will this bill expand the IDA program?

JFS/ar